

MOUNT AYR COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2006

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MOUNT AYR COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September, 2005 Election)		
Rodney Shields	President	2006
Eric Brown	Vice President	2005
Beth Whitson	Board Member	2005
David Richards	Board Member	2006
Craig Elliott	Board Member	2007
Board of Education (After September, 2005 Election)		
Craig Elliott	President	2007
Beth Whitson	Vice President	2008
Rodney Shields	Board Member	2006
David Richards	Board Member	2006
James Uhlenkamp	Board Member	2008
School Officials		
William Decker	Superintendent	2006
Janette Campbell	District Secretary/Treasurer	2006
James Pederson	Attorney	Indefinite



Independent Auditor's Report

To the Board of Education
Mount Ayr Community School District
Mount Ayr, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District, Mount Ayr, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued our reports dated November 30, 2006, on our consideration of the Mount Ayr Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 13 and 40 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mount Ayr Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005, (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

November 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mount Ayr Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

General Fund revenues increased from \$6,079,408 in fiscal 2005 to \$6,332,565 in fiscal 2006. General Fund expenditures increased from \$6,505,425 in fiscal 2005 to \$6,670,436 in fiscal 2006. The District's General Fund balance decreased from \$39,029 in fiscal 2005 to -\$396,994 in fiscal 2006.

The increase in General Fund revenues was attributable to increased tuition, investment earnings, increased State Aide, and increased Federal funding. The increase in expenditures was due primarily to unanticipated expenditures in the instructional area of the budget.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Mount Ayr Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Mount Ayr Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Mount Ayr Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

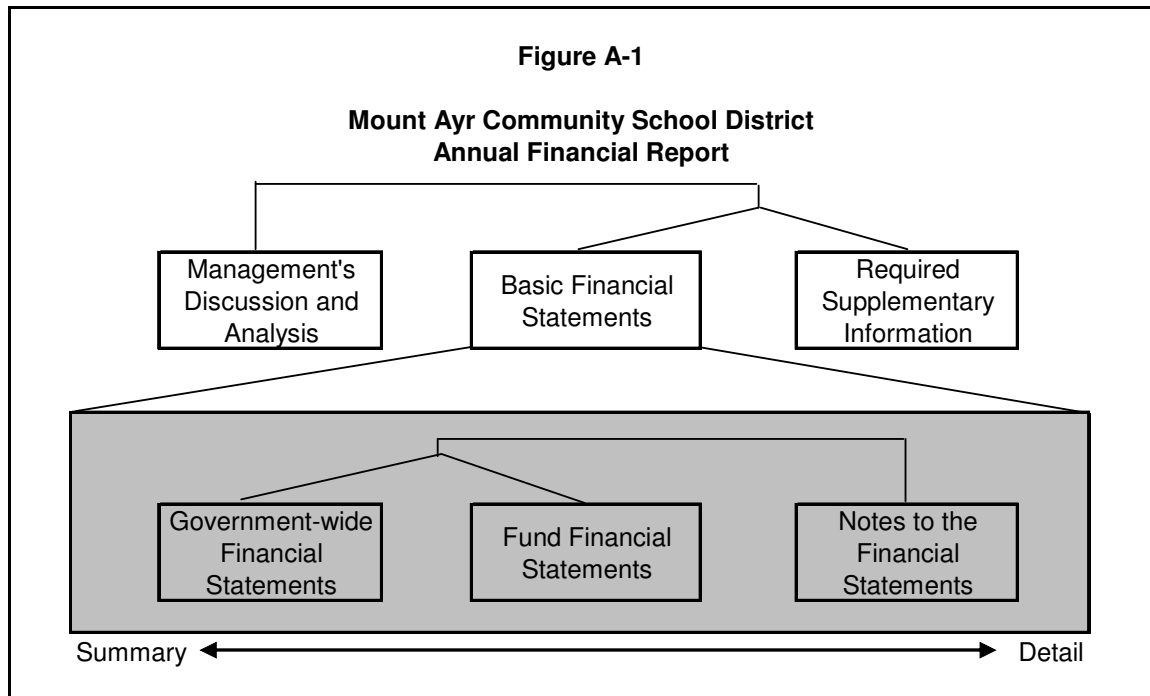


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Student Construction Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3 Condensed Statement of Net Assets (expressed in thousands)							
	Governmental Activities		Business Type Activities		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 4,902	4,765	55	81	4,957	4,846	2.3%
Capital assets	6,649	6,665	31	32	6,680	6,697	-0.3%
Total assets	11,551	11,430	86	113	11,637	11,543	0.8%
Long-term debt obligations	262	248	-	-	262	248	5.6%
Other liabilities	4,868	4,435	26	24	4,894	4,459	9.8%
Total liabilities	5,130	4,683	26	24	5,156	4,707	9.5%
Net assets							
Invested in capital assets, net of related debt	6,642	6,877	31	32	6,673	6,909	-3.4%
Restricted	402	174	-	-	402	174	131.0%
Unrestricted	(623)	(304)	29	57	(594)	(247)	140.5%
Total net assets	\$ 6,421	6,747	60	89	6,481	6,836	-5.2%

The District's combined net assets decreased by nearly 5.2%, or approximately \$355,000 over the prior year. The largest portion of the District's net assets is invested in capital assets, e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$228,000, or 131.0% over the prior year. The increase was primarily a result of increased revenues in the Capital Projects Fund. A decrease in expenditures from the PPEL and Capital Project Funds resulted in larger fund balances in these two funds which resulted in larger "restricted" funds.

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations without constraints by debt covenants, enabling legislation or other legal requirements) increased approximately \$347,000, or 140.5%.

Figure A-4 shows the change in net assets for the year ended June 30, 2006.

Figure A-4 Changes in Net Assets (expressed in thousands)						
	Governmental Activities		Business type Activities		Total District	
	Year ended June 30,	Year ended June 30,	Year ended June 30,	Year ended June 30,	Year ended June 30,	Year ended June 30,
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for service and sales	\$ 856	785	149	149	1,005	934
Operating grants, contributions and restricted interest	876	754	172	162	1,048	916
General revenues:						
Property tax	2,268	2,452	-	-	2,268	2,452
Local option sales and services tax	305	-	-	-	305	-
Unrestricted states grants	2,667	2,527	-	-	2,667	2,527
Unrestricted investment earnings	66	41	1	-	67	41
Other	72	174	-	-	72	174
Total revenues	7,110	6,733	322	311	7,432	7,044
Program expenses:						
Governmental activities:						
Instruction	4,739	4,572	-	-	4,739	4,572
Support services	2,369	2,307	-	-	2,369	2,307
Non-instructional programs	23	22	351	311	374	333
Other expenses	246	498	-	-	246	498
Total expenses	7,377	7,399	351	311	7,728	7,710
Change in net assets	\$ (267)	(666)	(29)	-	(296)	(666)

Property tax and unrestricted state grants account for 73.69% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 96.35% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,110,000 and expenses were \$7,377,000. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues and using carryover balances.

The following table (Figure A-5) presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(expressed in thousands)

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,739	3,279
Support services	2,369	2,319
Non-instructional programs	23	23
Other expenses	246	24
Totals	<u>\$ 7,377</u>	<u>5,645</u>

The cost financed by users of the District's programs was \$856,000.

Federal and state governments subsidized certain programs with grants and contributions totaling \$876,000.

The net cost of governmental activities was financed with \$2,573,000 in property and other taxes and \$2,667,000 in unrestricted state grant.

Business Type Activities

Revenues for business type activities were \$322,000 and expenses were \$351,000. The District's business type activities include the School Nutrition Fund and Student Construction Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The district increased meal prices in 2002-2003. This increase has resulted in increased revenue to the School Nutrition Fund which the District will utilize in the future replacement of obsolete kitchen equipment. The district has also has increased revenues in the business type activities with the additional student construction project work.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Mount Ayr Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$6,250, below last year's ending fund balances of \$314,573. The primary reason for the decrease in combined fund balances in fiscal 2006 is due the decrease in the General Fund Balance.

Governmental Fund Highlights

The District's General Fund financial position has declined. The General Fund balance decreased from \$39,029 to \$-396,994, due in part to additional instructional and special education programs created after the 2005-2006 budget was approved. The approved general fund levy was not enough to support such additional programs. Special education tuitions were not as high as anticipated which also played a role in a decreased ending fund balance.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$6,662 fiscal 2005 to \$95,137 in fiscal 2006. The District levied for the PPEL Fund and limited expenditures in anticipation of upcoming PPEL fund expenditures in the future. While revenues remained approximately the same, the District substantially decreased spending from the PPEL.

The Capital Projects Fund balance increased from \$130,272 to \$167,151 due to the revenues collected from the One Cent Local Option Sales Tax. The District kept expenditures down in order to have a carry over balance to add to the 2007 budget year.

Propriety Fund Highlights

Proprietary Fund net assets decreased from \$88,956 at June 30, 2005 to \$60,415 at June 30, 2006, representing a decrease of approximately 32.08%. As previously noted, the District increased meal prices in 2002-2003. However, with the rising cost of food and supplies, increased salaries and replacement of aging lunchroom equipment, the School Nutrition Fund balance has taken a decline. The District will look at increasing meal prices at the beginning of the 2006-2007 school year to help increase revenues and maintain a balance within the fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, The Mount Ayr Community School District amended its annual budget one time to reflect additional expenditures associated with the additional instructional programs and other m unanticipated expenditures

The District's receipts were \$61,735 more than budgeted receipts. The most significant variance resulted from the revenue in the General and Capital Projects Funds.

Total expenditures were less than budgeted, due primarily to the District's budget for the General, School Nutrition and Capital Projects Funds. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Funds. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2006, the District had invested \$6.6 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of .3% from last year.

Figure A-6							
Capital Assets, net of Depreciation							
(expressed in thousands)							
	Governmental		Business Type		Total School District		Total
	Activities		Activities		Activities		Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 118	84	-	-	118	84	40.5%
Buildings	5,362	5,425	-	-	5,362	5,425	-1.2%
Improvements other than buildings	164	177	-	-	164	177	-7.3%
Furniture and equipment	1,005	979	31	32	1,036	1,011	2.5%
Totals	\$ 6,649	6,665	31	32	6,680	6,697	-0.3%

Long-Term Debt

At June 30, 2006, the district had \$263,000 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 6.0% from last year. (See Figure A-7).

Figure A-7			
Outstanding Long-Term Obligations			
(expressed in thousands)			
June 30,			
	2006	2005	Change
Instruction	\$ 138	184	-25.0%
Non-instructional programs	125	64	95.3%
Totals	<u>\$ 263</u>	<u>248</u>	<u>6.0%</u>

On October 1, 2001 the District authorized Energy Management Improvement Capital Loan Notes in the amount of \$225,000 bearing interest and maturing each year until December 1, 2011. The District also had a capital lease payable from the General Fund of \$24,993 at June 30, 2005.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The Mount Ayr CSD is currently in the middle of an \$8 million dollar bond referendum to replace the 1936 elementary building and addition to the secondary facilities. The vote is scheduled for February 27th and the voters will be asked to increase the levy \$3.40 to secure the eight million dollars. The board of directors has committed to abate the levy with 50% of SILO Funds collected to lower the levy to approximately \$2.47. These figures are derived from the assumption of a 4.25% interest rate and a 20-year payback.

The Mount Ayr Community School District's enrollment increased to start the 2006-07 school year after several years of decline. We hope this is a residual affect of an economic turn around within Ringgold County. It's been noted that Ringgold County is the fourth fastest growing rural county in the state. In addition, enrollment has continued to increase through out the school year, which should help future funding based on student enrollment.

The district is not currently collecting any board or voter approved PPEL monies for the 2006-07 school year in an attempt to keep the property rate as low possible.

The Mount Ayr Community School District's valuations (January 1, 2006) increased from \$152,286,074 to \$174,355,847 for the 2007-08 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Janette Campbell, District Secretary/Treasurer and Business Manager, Mount Ayr Community School District, 1001 East Columbus Street, Mount Ayr, IA 50854.

Basic Financial Statements

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 1,754,513	-	1,754,513
Other	563,203	16,492	579,695
Receivables:			
Property tax:			
Delinquent	58,786	-	58,786
Succeeding year	2,273,531	-	2,273,531
Accounts	90,241	97	90,338
Accrued interest:			
ISCAP	5,103	-	5,103
Due from other governments	156,918	14,979	171,897
Inventories	-	23,841	23,841
Capital assets, net of accumulated depreciation (note 4)	6,649,106	30,905	6,680,011
Total assets	11,551,401	86,314	11,637,715
Liabilities			
Accounts payable	142,920	-	142,920
Salaries and benefits payable	674,606	25,899	700,505
Other payables	12,810	-	12,810
Accrued interest payable	544	-	544
Deferred revenue:			
Succeeding year property tax	2,273,531	-	2,273,531
ISCAP warrants payable	1,755,000	-	1,755,000
ISCAP accrued interest payable	7,978	-	7,978
Long-term liabilities (note 5):			
Portion due within one year:			
Capital notes payable	22,467	-	22,467
Early retirement	29,200	-	29,200
Portion due after one year:			
Capital notes payable	115,394	-	115,394
Early retirement	95,500	-	95,500
Total liabilities	5,129,950	25,899	5,155,849
Net assets			
Invested in capital assets, net of related debt	6,641,518	30,905	6,672,423
Restricted for:			
Capital Projects	167,151	-	167,151
Management levy	47,324	-	47,324
Physical plant and equipment levy	95,137	-	95,137
Other special revenue purposes	93,632	-	93,632
Unrestricted	(623,311)	29,510	(593,801)
Total net assets	\$ 6,421,451	60,415	6,481,866

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

		Program Revenues	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
	Expenses		
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,369,274	342,186	291,594
Special instruction	1,373,829	211,428	231,256
Other instruction	996,039	302,119	81,083
	<u>4,739,142</u>	<u>855,733</u>	<u>603,933</u>
Support Service:			
Student services	208,188	-	-
Instructional staff services	302,993	-	-
Administration services	825,778	-	-
Operating and maintenance of plant services	590,032	-	50,000
Transportation services	441,765		
	<u>2,368,756</u>	<u>-</u>	<u>50,000</u>
Non-instructional programs	<u>22,451</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Long-term debt interest	7,299	-	-
AEA flowthrough	222,117	-	222,117
Depreciation (unallocated)*	16,838	-	-
	<u>246,254</u>	<u>-</u>	<u>222,117</u>
Total governmental activities	7,376,603	855,733	876,050
Business type activities:			
Non-instructional programs:			
Nutrition services	350,412	148,125	172,452
Other enterprise services	274	455	-
Total business type activities	<u>350,686</u>	<u>148,580</u>	<u>172,452</u>
Total Primary Government	<u>\$ 7,727,289</u>	<u>1,004,313</u>	<u>1,048,502</u>

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,735,494)	-	(1,735,494)
(931,145)	-	(931,145)
(612,837)	-	(612,837)
(3,279,476)	-	(3,279,476)
(208,188)	-	(208,188)
(302,993)	-	(302,993)
(825,778)	-	(825,778)
(540,032)	-	(540,032)
(441,765)	-	(441,765)
(2,318,756)	-	(2,318,756)
(22,451)	-	(22,451)
(7,299)	-	(7,299)
-	-	-
(16,838)	-	(16,838)
(24,137)	-	(24,137)
(5,644,820)	-	(5,644,820)
-	(29,835)	(29,835)
-	181	181
-	(29,654)	(29,654)
(5,644,820)	(29,654)	(5,674,474)

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

		Program Revenues	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
	Expenses		
Totals from previous pages	\$ 7,727,289	1,004,313	1,048,502
General Revenues:			
Property tax levied for:			
General purposes			
Capital outlay			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Gain on sale of capital assets			
Other			
Contributions			
Total general revenues			
Change in net assets			
Net assets beginning of year, as restated			
Net assets end of year			

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(5,644,820)	(29,654)	(5,674,474)
2,215,502	-	2,215,502
52,191	-	52,191
304,795	-	304,795
2,667,298	-	2,667,298
65,658	1,113	66,771
9,843	-	9,843
43,985	-	43,985
18,078	-	18,078
5,377,350	1,113	5,378,463
(267,470)	(28,541)	(296,011)
6,688,921	88,956	6,777,877
\$ 6,421,451	60,415	6,481,866

MOUNT AYR COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Capital Projects	Non-major Special Revenue	Total
Assets				
Cash and pooled investments:				
ISCAP	\$ 1,754,513	-	-	1,754,513
Other	247,215	85,219	230,769	563,203
Receivables:				
Property tax:				
Current year delinquent	54,638	-	4,148	58,786
Succeeding year	2,177,382	-	96,149	2,273,531
Accounts	88,171	-	2,070	90,241
Accrued interest:	-			
ISCAP	5,103	-	-	5,103
Due from other governments	66,636	90,282	-	156,918
Total assets	\$ 4,393,658	175,501	333,136	4,902,295
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 133,676	8,350	894	142,920
Salaries and benefits payable	674,606	-	-	674,606
Early retirement payable	29,200	-	-	29,200
ISCAP warrants payable	1,755,000	-	-	1,755,000
ISCAP accrued interest payable	7,978	-	-	7,978
Other payables	12,810	-	-	12,810
Deferred revenue:				
Succeeding year property tax	2,177,382	-	96,149	2,273,531
Total liabilities	4,790,652	8,350	97,043	4,896,045
Fund balances:				
Unreserved	(396,994)	167,151	236,093	6,250
Total fund balances	(396,994)	167,151	236,093	6,250
Total liabilities and fund balances	\$ 4,393,658	175,501	333,136	4,902,295

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$	6,250
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		6,649,106
--	--	-----------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(544)
--	--	-------

Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(233,361)
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Net assets of governmental activities (Exhibit A)	\$	<u><u>6,421,451</u></u>
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See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 2,115,621	-	304,795	152,072	2,572,488
Tuition	529,221	-	-	-	529,221
Other	142,750	-	4,214	305,521	452,485
Intermediate sources	9,184	-	-	-	9,184
State sources	3,178,642	-	-	123	3,178,765
Federal sources	357,147	-	-	-	357,147
Total revenues	6,332,565	-	309,009	457,716	7,099,290
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,252,637	-	-	-	2,252,637
Special instruction	1,359,199	-	-	-	1,359,199
Other instruction	673,720	-	-	299,868	973,588
	4,285,556	-	-	299,868	4,585,424
Support services:					
Student services	206,175	-	-	-	206,175
Instructional staff services	290,636	-	13,941	-	304,577
Administration services	781,819	-	-	43,863	825,682
Operation and maintenance of plant services	524,153	-	-	49,134	573,287
Transportation services	359,980	-	47,975	17,246	425,201
	2,162,763	-	61,916	110,243	2,334,922
Other expenditures:					
Facilities acquisition	-	-	210,214	13,784	223,998
Long-term debt:					
Principal	-	46,419	-	-	46,419
Interest and fiscal charges	-	7,392	-	-	7,392
AEA flowthrough	222,117	-	-	-	222,117
	222,117	53,811	210,214	13,784	499,926
Total expenditures	6,670,436	53,811	272,130	423,895	7,420,272
Excess (deficiency) of revenues over (under) expenditures	(337,871)	(53,811)	36,879	33,821	(320,982)
Other financing sources (uses):					
Transfers in	-	53,811	-	57,000	110,811
Transfers out	(110,811)	-	-	-	(110,811)
Sale of equipment	12,659	-	-	-	12,659
Total other financing sources (uses)	(98,152)	53,811	-	57,000	12,659
Net change in fund balances	(436,023)	-	36,879	90,821	(308,323)
Fund balances beginning of year	39,029	-	130,272	145,272	314,573
Fund balances end of year	\$ (396,994)	-	167,151	236,093	6,250

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ (308,323)

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 354,957	
Depreciation expense/asset disposal	<u>(370,416)</u>	(15,459)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

46,419

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		<u>9,800</u>
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Change in net assets of governmental activities (Exhibit B)

\$ (267,470)

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business Type Activities Enterprise Fund
Assets	
Current assets:	
Cash and investments	\$ 16,492
Accounts receivable	97
Due from other governments	14,979
Inventories	23,841
Total current assets	<u>55,409</u>
Non-current assets:	
Property and equipment:	
Machinery and equipment	266,887
Accumulated depreciation	<u>(235,982)</u>
Total non-current assets	<u>30,905</u>
Total assets	<u>86,314</u>
Liabilities	
Current liabilities:	
Salaries and benefits payable	<u>25,899</u>
Total current liabilities	<u>25,899</u>
Net Assets	
Invested in capital assets, net of related debt	30,905
Unrestricted	<u>29,510</u>
Total net assets	<u>\$ 60,415</u>

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 Year ended June 30, 2006

	Business Type Activities Enterprise Fund
Operating revenues:	
Local sources:	
Charges for services	\$ 148,580
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Depreciation	884
Other	349,528
Other enterprise operations:	
Other	274
Total operating expenses	350,686
Operating loss	(202,106)
Non-operating revenues:	
Local sources	1,113
State sources	4,308
Federal sources	168,144
Total non-operating revenues	173,565
Change in net assets	(28,541)
Net assets beginning of year	88,956
Net assets end of year	\$ 60,415

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2006

	Business Type Activities Enterprise Fund
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 139,606
Cash received from miscellaneous operating activities	11,831
Cash payments to employees for services	(166,780)
Cash payments to suppliers for goods or services	(147,090)
Net cash used in operating activities	<u>(162,433)</u>
Cash flows from non-capital financing activities:	
State grants received	4,188
Federal grants received	143,922
Net cash provided by non-capital financing activities	<u>148,110</u>
Cash flows from investing activities:	
Interest on investments	<u>1,125</u>
Net decrease in cash and cash equivalents	(13,198)
Cash and cash equivalents at beginning of year	<u>29,690</u>
Cash and cash equivalents at end of year	<u><u>\$ 16,492</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (202,106)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	28,026
Depreciation	884
Decrease in accounts receivable	2,857
Decrease in inventories	5,592
(Decrease) in accounts payable	(887)
Increase in salaries and benefits payable	3,201
Net cash used by operating activities	<u><u>\$ (162,433)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	\$ 16,492
Cash and cash equivalents at year end	<u><u>\$ 16,492</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received federal commodities valued at \$28,026.

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	<u>Expendable Trusts</u>
Assets	
Cash and investments	<u>\$ 3,284</u>
Total assets	<u>3,284</u>
Net assets	
Held in trust for special purposes	<u><u>\$ 3,284</u></u>

See notes to financial statements.

Exhibit K

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	<u>Expendable Trusts</u>
Additions:	
Local sources:	
Gifts and contributions	<u>\$ 111</u>
Total additions	<u>111</u>
Deductions:	
Support services:	
Supplies	<u>57</u>
Total deductions	<u>57</u>
Change in net assets	54
Net assets beginning of year	<u>3,230</u>
Net assets end of year	<u><u>\$ 3,284</u></u>

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2006

(1) Summary of Significant Accounting Policies

The Mount Ayr Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Mount Ayr, Iowa, and the predominate agricultural territories in Ringgold and Taylor Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Mount Ayr Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Mount Ayr Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Ringgold County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2006

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds consist of two Enterprise funds: School Nutrition and Student Construction. These funds are used to account for the food service operations and industrial arts student construction operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following two expendable trust funds:

Memorial Fund – These funds have been received in the form of a memorial donation to be used for a designated school purpose.

Employee Fund – These funds have been set aside for the specific purpose of assisting school employees to improve the quality of education for students.

C. Measurement Focus and Basis of Accounting

The Government-wide proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2006

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2006

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2006

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end. Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2006

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

(3) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investment	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/2006	1/26/2007	\$ 401,396	4,682	400,000	7,644
2006-07A	6/28/2006	6/26/2007	1,353,117	421	1,355,000	334
Total			<u>\$ 1,754,513</u>	<u>5,103</u>	<u>1,755,000</u>	<u>7,978</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ -	500,000	500,000	-
2005-06B	-	400,000	400,000	-
Total	<u>\$ -</u>	<u>900,000</u>	<u>900,000</u>	<u>-</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2006

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 83,850	34,335	-	118,185
Total capital assets not being depreciated	83,850	34,335	-	118,185
Capital assets being depreciated:				
Buildings	9,798,907	112,640	-	9,911,547
Improvements other than buildings	437,424	-	-	437,424
Furniture and equipment	2,690,542	207,982	11,055	2,887,469
Total capital assets being depreciated	12,926,873	320,622	11,055	13,236,440
Less accumulated depreciation for:				
Buildings	4,374,151	176,027	-	4,550,178
Improvements other than buildings	260,034	13,144	-	273,178
Furniture and equipment	1,711,973	178,429	8,239	1,882,163
Total accumulated depreciation	6,346,158	367,600	8,239	6,705,519
Total capital assets being depreciated, net	6,580,715	(46,978)	2,816	6,530,921
Governmental activities capital assets, net	\$ 6,664,565	(12,643)	2,816	6,649,106
Business type activities:				
Furniture and equipment	\$ 266,887	-	-	266,887
Less accumulated depreciation	235,098	884	-	235,982
Business type activities capital assets, net	\$ 31,789	(884)	-	30,905
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular				\$ 178,037
Special				14,630
Other				22,451
Support services:				
Student services				5,613
Instructional staff				16,216
Administration				10,055
Operation and maintenance of plant				16,745
Transportation				64,564
Non-instructional programs				22,451
				350,762
Unallocated depreciation				16,838
Total governmental activities depreciation expense				\$ 367,600
Business type activities:				
Food services				\$ 884

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2006

(5) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital loan notes	\$ 159,287	-	21,426	137,861	22,467
Obligation under capital lease	24,993	-	24,993	-	-
Early retirement	133,900	19,400	28,600	124,700	29,200
	<u>\$ 318,180</u>	<u>19,400</u>	<u>75,019</u>	<u>262,561</u>	<u>51,667</u>

Capital Loan Notes Payable

Details of the District's June 30, 2006 capital loan note indebtedness are as follows:

Period Ending June 30,	2001 Capital Loan Note			
	Interest Rate	Principal	Interest	Total
2007	4.80%	\$ 22,467	6,351	28,818
2008	4.80%	23,558	5,260	28,818
2009	4.80%	24,702	4,116	28,818
2010	4.80%	25,902	2,916	28,818
2011	4.80%	27,161	1,657	28,818
2012	4.80%	14,071	338	14,409
Total		<u>\$ 137,861</u>	<u>20,638</u>	<u>158,499</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$247,684, \$236,143, and \$220,761, respectively, equal to the required contributions for each year.

(7) Termination Benefits

The District offers a voluntary early retirement plan to its full-time, certified employees. Eligible employees must be at least age fifty-four by September 1, but not more than sixty-two years of age by June 1 preceding the year of retirement and employees must have completed ten years of service to the District. Employees must complete an application and an attached letter of resignation which is required to be approved by the Board of Education.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2006

The early retirement incentive for each eligible employee is the difference between the salary schedule base and the employee's placement on the salary schedule using the salary schedule in effect for the last year of employment and subject to a maximum of \$19,475 to \$36,000 per individual depending upon the individual's level of education and service to the District.

Early retirement benefits are paid monthly and cease when the retiree reaches the age of 65.

At June 30, 2006, the District has obligations to 13 participants with a total liability of \$124,700. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$28,600.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$222,117 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Fund Balance

The General Fund had a deficit balance of \$396,994 as of June 30, 2006.

(11) Prior Period Adjustment

The District realized that the Early Retirement long-term portion of their obligation was understated by \$57,600 at June 30, 2005. Accordingly, this adjustment was made to the beginning balance on July 1, 2005.

Required Supplementary Information

MOUNT AYR COMMUNITY SCHOOL DISTRICT

MOUNT AYR COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2006

	Governmental Funds- Actual	Proprietary Funds- Actual
Receipts:		
Local sources	\$ 3,500,069	152,562
Intermediate sources	9,184	-
State sources	3,154,862	4,188
Federal sources	388,970	143,922
Total receipts	<u>7,053,085</u>	<u>300,672</u>
Disbursements:		
Instruction	4,576,476	-
Support services	2,318,355	-
Non-instructional programs	-	313,870
Other expenditures	541,441	-
Total disbursements	<u>7,436,272</u>	<u>313,870</u>
Deficiency of receipts under disbursements	(383,187)	(13,198)
Other financing sources, net	<u>12,659</u>	<u>-</u>
Deficiency of receipts and other financing sources under disbursements	(370,528)	(13,198)
Balances beginning of year	<u>933,731</u>	<u>29,690</u>
Balances end of year	<u><u>\$ 563,203</u></u>	<u><u>16,492</u></u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
	Original	Final	
3,652,631	3,564,137	3,564,137	88,494
9,184	-	-	9,184
3,159,050	3,319,885	3,319,885	(160,835)
532,892	408,000	408,000	124,892
7,353,757	7,292,022	7,292,022	61,735
4,576,476	4,577,000	4,650,000	73,524
2,318,355	1,946,000	2,400,000	81,645
313,870	335,000	335,000	21,130
541,441	381,806	650,000	108,559
7,750,142	7,239,806	8,035,000	284,858
(396,385)	52,216	(742,978)	346,593
12,659	5,000	5,000	7,659
(383,726)	57,216	(737,978)	354,252
963,421	1,192,824	1,330,113	(366,692)
579,695	1,250,040	592,135	(12,440)

MOUNT AYR COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2006

Governmental Funds			
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 7,053,085	46,205	7,099,290
Expenditures	7,436,272	(16,000)	7,420,272
Net	(383,187)	62,205	(320,982)
Other financing sources	12,659	-	12,659
Beginning fund balances	933,731	(619,158)	314,573
Ending fund balances	\$ 563,203	(556,953)	6,250

Proprietary Funds			
	Cash Basis	Enterprise Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 300,672	21,473	322,145
Expenses	313,870	36,816	350,686
Net	(13,198)	(15,343)	(28,541)
Beginning net assets	29,690	156,987	88,956
Ending net assets	\$ 16,492	141,644	60,415

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$795,194.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

MOUNT AYR COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 44,592	92,456	93,721	230,769
Receivables:				
Property tax:				
Current year delinquent	2,732	-	1,416	4,148
Succeeding year	96,149	-	-	96,149
Accounts	-	2,070	-	2,070
Total assets	\$ 143,473	94,526	95,137	333,136
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	894	-	894
Deferred revenue:				
Succeeding year property tax	96,149	-	-	96,149
Total liabilities	96,149	894	-	97,043
Fund equity:				
Fund balances:				
Unreserved fund balances	47,324	93,632	95,137	236,093
Total liabilities and fund equity	\$ 143,473	94,526	95,137	333,136

See accompanying independent auditor's report.

Schedule 2

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 99,881	-	52,191	152,072
Other	1,164	304,141	216	305,521
	101,045	304,141	52,407	457,593
State sources:				
Revenue in lieu of taxes - military credit	81	-	42	123
Total revenues	101,126	304,141	52,449	457,716
Expenditures:				
Instruction:				
Co-curricular instruction:				
Services	-	59,890	-	59,890
Supplies	-	165,113	-	165,113
Other	-	74,865	-	74,865
Total instruction	-	299,868	-	299,868
Support Services:				
General administration:				
Benefits	39,246	-	-	39,246
Services	4,617	-	-	4,617
	43,863	-	-	43,863
Plant operation and maintenance:				
Benefits	-	-	-	-
Services	49,134	-	-	49,134
	49,134	-	-	49,134
Student transportation:				
Services	17,056	-	-	17,056
Property	-	-	190	190
	17,056	-	190	17,246
Total support services	110,053	-	190	110,243
Other expenditures:				
Facilities acquisition:				
Property	-	-	13,784	13,784
Total expenditures	110,053	299,868	13,974	423,895

Schedule 2

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Excess (deficiency) of revenues over (under) expenditures	(8,927)	4,273	38,475	33,821
Other financing sources:				
Operating transfers in	-	7,000	50,000	57,000
Total other financing sources	-	7,000	50,000	57,000
Net change in fund balances	(8,927)	11,273	88,475	90,821
Fund balance beginning of year	56,251	82,359	6,662	145,272
Fund balance end of year	\$ 47,324	93,632	95,137	236,093

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2006

	Enterprise Funds		
	School Nutrition	Student Construction	Total
Assets			
Current assets:			
Cash and investments	\$ 12,858	3,634	16,492
Accounts receivable	97	-	97
Due from other governments	14,979	-	14,979
Inventories	23,841	-	23,841
Total current assets	51,775	3,634	55,409
Non-current assets:			
Property and equipment:			
Machinery and equipment	266,887	-	266,887
Accumulated depreciation	(235,982)	-	(235,982)
Total non-current assets	30,905	-	30,905
Total assets	82,680	3,634	86,314
Liabilities			
Current liabilities:			
Salaries and benefits payable	25,899	-	25,899
Total current liabilities	25,899	-	25,899
Net Assets			
Invested in capital assets, net of related debt	30,905	-	30,905
Unrestricted	25,876	3,634	29,510
Total net assets	\$ 56,781	3,634	60,415

See accompanying independent auditor's report.

Schedule 4

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2006

	Enterprise Funds		
	School Nutrition	Student Construction	Total
Operating revenues:			
Local sources:			
Other local sources:			
Food service sales	\$ 136,749	-	136,749
Miscellaneous	11,376	455	11,831
Total operating revenues	148,125	455	148,580
Operating expenses:			
Instruction:			
Other instruction:			
Supplies	-	274	274
Non-instructional programs:			
Food services operations:			
Salaries	144,876	-	144,876
Benefits	25,105	-	25,105
Services	4,433	-	4,433
Supplies	175,114	-	175,114
Depreciation	884	-	884
	350,412	-	350,412
Total operating expenses	350,412	274	350,686
Operating gain (loss)	(202,287)	181	(202,106)
Non-operating revenues:			
Interest on investments	1,113	-	1,113
State lunch and breakfast program claims	4,308	-	4,308
National School Lunch Program	104,762	-	104,762
School Breakfast Program	34,600	-	34,600
Special Milk	756	-	756
Food distribution	28,026	-	28,026
Total non-operating revenues	173,565	-	173,565
Changes in net assets	(28,722)	181	(28,541)
Net assets beginning of year	85,503	3,453	88,956
Net assets end of year	\$ 56,781	3,634	60,415

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
June 30, 2006

	Enterprise Funds		
	School Nutrition	Student Construction	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 139,606	-	139,606
Cash received from miscellaneous operating activities	11,376	455	11,831
Cash payments to employees for services	(166,780)	-	(166,780)
Cash payments to suppliers for goods or services	(146,816)	(274)	(147,090)
Net cash provided (used) by operating activities	(162,614)	181	(162,433)
Cash flows from non-capital financing activities:			
State grants received	4,188	-	4,188
Federal grants received	143,922	-	143,922
Net cash provided by non-capital financing activities	148,110	-	148,110
Cash flows from investing activities:			
Interest on investments	1,125	-	1,125
Net increase (decrease) in cash and cash equivalents	(13,379)	181	(13,198)
Cash and cash equivalents at beginning of year	26,237	3,453	29,690
Cash and cash equivalents at end of year	\$ 12,858	3,634	16,492
Reconciliation of operating gain (loss) to net cash provided (used) by operating activities:			
Operating loss	\$ (202,287)	181	(202,106)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities used	28,026	-	28,026
Depreciation	884	-	884
Decrease in accounts receivable	2,857	-	2,857
Decrease in inventories	5,592	-	5,592
(Decrease) in accounts payable	(887)	-	(887)
Increase in salaries and benefits payable	3,201	-	3,201
Net cash provided (used) by operating activities	\$ (162,614)	181	(162,433)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	\$ 12,858	3,634	16,492

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received federal commodities valued at \$28,026.

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2006

	Expendable Trusts		
	Memorial Fund	Employee Fund	Total
Assets			
Cash and investments	\$ 1,712	1,572	3,284
Total assets	1,712	1,572	3,284
Net assets			
Held in trust for special purposes	\$ 1,712	1,572	3,284

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2006

	Expendable Trusts		
	Memorial Fund	Employee Fund	Total
Additions:			
Local sources:			
Gifts and contributions	\$ -	111	111
Total additions	-	111	111
Deductions:			
Support services:			
Supplies	-	57	57
Total deductions	-	57	57
Change in net assets	-	54	54
Net assets beginning of year	1,712	1,518	3,230
Net assets end of year	\$ 1,712	1,572	3,284

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues and Transfers In	Expenditures	Balance End of Year
Adult Education	\$ 4,126	1,092	3,382	1,836
Alternative School	856	29	136	749
Art Club	457	4	-	461
Athletics:				
Football	7,565	32,447	25,788	14,224
Volleyball	580	7,614	6,362	1,832
Wrestling	516	8,395	9,979	(1,068)
Boys' basketball	7,200	14,228	13,829	7,599
Girls' basketball	5,929	7,707	5,695	7,941
Boys' track	(4,157)	1,811	4,389	(6,735)
Girls' track	(2,390)	8,053	9,420	(3,757)
Golf	(1,154)	2,059	3,267	(2,362)
Baseball	(327)	12,323	13,960	(1,964)
Softball	1,326	13,062	14,831	(443)
Miscellaneous	(25)	-	3,161	(3,186)
Ayrian	1,326	6,651	8,126	(149)
Band	513	2,709	1,878	1,344
Charity Counts	111	-	-	111
Cheerleaders	3,508	5,986	6,944	2,550
Class:				
2005	(1,912)	6,083	2,312	1,859
2006	7,575	20,581	21,108	7,048
2007	(310)	1,757	1,736	(289)
2008	499	2,512	1,787	1,224
Drama Club	760	7,159	7,452	467
Drill Team	1,193	8,194	6,080	3,307
Elementary Activities	-	8,449	4,889	3,560
Elementary Library	2,511	220	584	2,147
Elementary Student Council	3,115	9,952	11,839	1,228
Future Farmers of America	18,316	45,561	43,916	19,961
Future Homemakers of America	141	865	953	53
F.T.A.	1,378	2,099	3,207	270
Gifts/Memorials	4,543	-	1,345	3,198
Industrial Arts	(130)	1,329	1,158	41
Jr. High School	6,491	25,701	22,276	9,916
Library Club	372	1,719	1,913	178
Miscellaneous	(535)	3,257	521	2,201
Office education (BPA)	2,623	-	100	2,523
Pep Club	-	27,371	16,681	10,690
Resale	1,319	7,655	9,398	(424)
S.A.D.D.	820	454	844	430
Science Club	732	-	-	732
Elementary Yearbook	200	1,620	1,768	52

Schedule 8

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues and Transfers In	Expenditures	Balance End of Year
International Club	132	-	-	132
Special Olympics	673	-	498	175
Student Council	351	1,646	1,630	367
Vocal music	4,078	1,627	2,983	2,722
Weightlifting	1,464	1,160	1,743	881
Total	\$ 82,359	311,141	299,868	93,632

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST FIVE YEARS

		Modified Accrual Basis				
		2006	2005	2004	2003	2002
Revenues:						
Local sources:						
Local tax		\$ 2,572,488	2,451,825	2,376,629	2,377,295	2,024,160
Tuition		529,221	423,715	468,609	545,882	546,584
Other		452,485	456,198	367,281	450,124	417,165
Intermediate sources		9,184	11,461	19,491	23,885	45,615
State sources		3,178,765	3,108,574	3,374,553	3,335,123	3,411,878
Federal sources		357,147	283,269	271,334	260,386	289,085
Total		<u>\$ 7,099,290</u>	<u>6,735,042</u>	<u>6,877,897</u>	<u>6,992,695</u>	<u>6,734,487</u>
Expenditures:						
Instruction:						
Regular instruction		\$ 2,252,637	2,263,656	2,383,276	2,195,590	2,318,024
Special instruction		1,359,199	1,317,696	1,271,789	1,330,654	1,301,817
Other instruction		973,588	779,600	758,563	717,350	751,655
Support services:						
Student services		206,175	174,313	148,048	142,481	187,156
Instructional staff services		304,577	320,562	203,150	256,930	208,759
Administration services		825,682	760,148	631,628	610,999	599,970
Operation and maintenance of plant services		573,287	580,080	451,782	490,606	432,079
Transportation services		425,201	318,102	288,136	268,432	311,839
Central support services		-	65,926	54,662	95,673	156,355
Other support services		-	-	8,845	-	-
Other expenditures:						
Facilities acquisition		223,998	367,132	145,579	5,158	607,785
Long-term debt:						
Principal		46,419	43,833	41,363	204,463	188,912
Interest and other charges		7,392	9,978	12,448	18,409	24,708
AEA flowthrough		222,117	218,935	228,706	246,674	249,067
Total		<u>\$ 7,420,272</u>	<u>7,219,961</u>	<u>6,627,975</u>	<u>6,583,419</u>	<u>7,338,126</u>

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Mount Ayr Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Mount Ayr Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents and have issued our report thereon dated November 30, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mount Ayr Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mount Ayr Community School District and other parties to whom the District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Mount Ayr Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

November 30, 2006

MOUNT AYR COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash disbursements and bank reconciliations were done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in federal awards.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-06 Certified Budget - Disbursements for the year ended June 30, 2006, did not exceed the amounts budgeted.

IV-B-06 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - No business transactions were noted between the District and District officials or employees.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2006

- IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-06 Board Minutes - No transactions were noted requiring Board approval which had not been approved by the Board.
- IV-G-06 Certified Enrollment - No variances were noted in the basic enrollment data certified to the Department of Education.
- IV-H-06 Deposits and Investments - No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy.
- IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-J-06 Sale of Property - During the year ended June 30, 2006, the District made sales of property in accordance with Chapter 297.22 of the Code of Iowa.
- IV-K-06 Financial Condition – The General Fund had a deficit balance at June 30, 2006.

Recommendation – The District should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response – The deficit balance is being looked into and the District hopes to have this deficit balance resolved in the upcoming year.

Conclusion – Response accepted.